Australia business leaders maintain an optimistic outlook even as they navigate a labour shortage, supply chain issues and effects from the war in Ukraine, our survey finds.
Introduction

Optimism is high among executives at midsize businesses across Australia, even with the challenges they face now and those they expect in the year ahead. The economic outlook for the global, regional and national economies is optimistic (63%), and the vast majority of business owners (94%) expect growth in the year ahead.

Interestingly, Australian sentiment slightly outpaces German optimism and far outpaces U.S. sentiment. In May, 61% of German business leaders were optimistic about the global and national economies. Meanwhile, a June survey of U.S. business leaders found that 9% were optimistic about the global economy and 19% were optimistic about the national economy.

One reason for the difference could stem from hopes for the new government. More than half (56%) of Australian business leaders expect the recent elections to have a positive impact. The survey was fielded just after the swearing-in of Prime Minister Anthony Albanese, during the third month of the war in Ukraine and with COVID-19 still a prevalent factor.

Optimism persists despite a labour shortage that 92% of those surveyed are feeling. More than 40% of Australian business leaders say they feel the effects of the ongoing war in Ukraine – supply chain issues being the leading impact (45%). But businesses are pivoting to accommodate these challenges as they strive toward an expectedly brighter year ahead. Half of Australian businesses are increasing benefits to retain workers, and of the respondents who named the supply chain as a growing pain, half are strategically stockpiling.

Explore the top six takeaways from executives at midsize Australian businesses in 2022:

- LABOUR SHORTAGE
- SUPPLY CHAIN DISRUPTIONS
- WAR IN UKRAINE
- COVID-19 PANDEMIC
- ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)
- CYBER THREATS
Australian business leaders are equally optimistic about the global, regional and national economies (63%). That optimism increases when focus narrows to their industry (74%) and their own company’s future (79%).

*Numbers do not equal 100% due to rounding.
Company growth is expected to come from increased revenue/sales (80%) and increased profits (74%).

- **Revenue/sales**
  - Increase 80%, Remain the same 11%, Decrease 9%

- **Profits**
  - Increase 74%, Remain the same 20%, Decrease 6%

- **Capital expenditures**
  - Increase 67%, Remain the same 22%, Decrease 11%

- **Capital needs**
  - Increase 75%, Remain the same 18%, Decrease 7%

Mid-cap businesses are very focused on absorbing cost inflation — often driven by supply chain issues and labour shortages. Management of these issues can be tricky where there are fewer capital sources available, particularly in certain industries where raising equity and/or debt is less straightforward given current market conditions. However, business leaders remain resilient and optimistic about future growth, as our survey results found — perhaps partly inspired by the recent election.

Annabelle Mooney, Head of Commercial Banking, Australia, J.P. Morgan
Business expectations cont.

Confidence among Australia’s business community is high. Nearly all (94%) surveyed expect growth in the year ahead, a significant jump compared with the sentiment among U.S. business leaders surveyed in June (83%). In fact, growth expectations in Australia are higher than in any country J.P. Morgan has surveyed in the past six months.

Although Australian business owners vary widely on their path to growth, they largely see digital solutions as a primary growth avenue. A majority (53%) expect growth to come through technology that automates manual processes, and 50% believe e-commerce technologies and contactless payment solutions will play a part.

**Expecting business growth in the next 12 months**

- Yes: 94%
- No: 6%

**Confidence levels on the rise***

1. I am fearful my business may not survive: 3%
2. I am fearful my business may not survive: 16%
3. I am confident my business will thrive: 50%
4. I am confident my business will thrive: 30%

*Numbers do not equal 100% due to rounding.
Business expectations cont.

Business leaders plan to actively pursue capital in the year ahead, with 91% saying they plan to use or will consider using some form of financing. About a third (31%) of businesses are planning to use a line of credit, while almost as many plan to use asset-based financing (29%) or venture capital (28%).
Business expectations cont.

More than half (56%) of Australian business leaders expect the new government to have a positive impact on their business, while a little more than one-third (37%) give a neutral rating. Among respondents who say the election will positively impact their business, most give a general positive response or cite increased development of their business as top impacts.

Impact of election*

- General positive business impacts ................................................... 30%
- Increase development of our business/company ......................... 25%
- Create economic growth ................................................................. 10%
- Tax cuts/business taxes ................................................................. 4%
- Less inflation ............................................................................. 3%
- Climate change ......................................................................... 3%

*Respondents were asked an open-ended question.
Australian business owners face many operational challenges, with rising prices and labour concerns topping the list. Business leaders also say ongoing supply chain issues are a top concern.

**Top 3 challenges companies are facing**

1. Rising prices ................................................................. 27%
2. Labour (shortage and costs) .............................................. 27%
3. Ongoing supply chain issues ........................................... 18%

*Australian business leaders are grappling with rising costs and labour shortages, but their optimism remains strong. They’re overcoming the volatility and continuing to find growth opportunities.*

Robert Bedwell, Chief Executive Officer, J.P. Morgan, Australia and New Zealand, J.P. Morgan
The vast majority (92%) of Australian businesses say they feel the pangs of the labour shortage in a number of ways.

Nearly half (47%) of businesses report that current employees are working more, while 41% say they have relied on outside consultants. Many (44%) also report reduced sales/revenue.
Labour shortage cont.

To address the labour shortage, Australian businesses plan to make changes aimed at retaining or hiring staff.

The most common tactic, which half the businesses surveyed are using, is to increase benefits. Other top changes include offering upskilling/training opportunities (48%) and employee flexibility for work location (43%) and work hours (42%).

<table>
<thead>
<tr>
<th>Changes to retain or hire staff</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase benefits</td>
<td>50%</td>
</tr>
<tr>
<td>Offer upskilling/training opportunities</td>
<td>48%</td>
</tr>
<tr>
<td>Give employees flexibility on where they work</td>
<td>43%</td>
</tr>
<tr>
<td>Offer flexible hours</td>
<td>42%</td>
</tr>
<tr>
<td>Pay retention bonuses</td>
<td>38%</td>
</tr>
<tr>
<td>Increase wages</td>
<td>37%</td>
</tr>
<tr>
<td>None of these</td>
<td>1%</td>
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</tbody>
</table>
Supply chain disruptions are the leading driver of disruptive change (36%), and rising prices (27%) are also among the top challenges Australian business leaders cite.

In response, business leaders are making adjustments to inventory and suppliers. Half of executives who mention supply chain as a growing pain say they are strategically stockpiling, and nearly half (49%) have replaced or stopped doing business with certain suppliers.

**Adjustments made due to supply chain issues***

- 50% Strategic stockpiling
- 49% Replaced or stopped doing business with certain suppliers
- 43% Increasing our prices for goods and services
- 43% Changing materials or manufacturing processes
- 41% Allocating more capital to cover increased costs related to moving products
- 41% Added suppliers from new geographies
- 40% Changed marketing/sales approach
- 31% Shifting manufacturing/distribution closer to key markets, i.e., nearshoring

*Base: Respondents who mention supply chain as a growing pain
More than 4 in 10 (44%) Australian business leaders expect the war in Ukraine to impact their business, and those anticipated impacts span a number of problems.

Supply chain issues (45%) are the most cited impact. Other top concerns include higher energy prices (41%), higher commodity prices (36%) and higher inflation (30%).
A majority (88%) of the businesses that have been impacted by the war in Ukraine say they expect the impact to last at least six months.

**Expected length of the war’s impact**

- 12% less than 6 months
- 44% 6 months to less than a year
- 33% 1 year to less than 2 years
- 11% 2 years or more
More than two years after the beginning of the COVID-19 pandemic, Australian businesses are recovering well from the initial impact. More than three-fourths (76%) are operating at or greater than 50% capacity.

![Capacity since the pandemic chart]

*Numbers do not equal 100% due to rounding.

Nearly half (49%) of businesses expect to increase business travel in the next six months, which is understandable considering the country’s stringent travel restrictions during the height of the pandemic. Only 9% of companies say they will likely continue to avoid travel due to COVID-19 concerns.
A little more than half (52%) of Australian business leaders expect the focus on corporate responsibility factors to increase in 2022. This is good news for the 44% of Australian businesses that have a positive outlook on the global focus of ESG because they believe they’re already meeting ESG requirements.

*Numbers do not equal 100% due to rounding.*
Of the factors that make up corporate responsibility, social factors (43%) and diversity, equity and inclusion (41%) are most important to business strategy, a possible indicator of what to expect from Australian businesses in the year ahead.
While digital solutions have helped businesses pivot during the COVID-19 pandemic, 45% of Australian businesses have experienced a cyber-related incident in the past year. And cyber threats loom in the back of business owners’ minds. Top concerns centre around compromised supply chain/vendors (19%) and theft of intellectual property or data breaches (18%).

### Greatest risk of cyber threats

<table>
<thead>
<tr>
<th>Risk</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply chain/vendor compromise or attack</td>
<td>19%</td>
</tr>
<tr>
<td>Theft of intellectual property/data breach</td>
<td>18%</td>
</tr>
<tr>
<td>Malware/ransomware</td>
<td>13%</td>
</tr>
<tr>
<td>Website/server crash</td>
<td>12%</td>
</tr>
<tr>
<td>Business email compromise</td>
<td>12%</td>
</tr>
<tr>
<td>Payments fraud</td>
<td>11%</td>
</tr>
<tr>
<td>Cheque fraud</td>
<td>3%</td>
</tr>
<tr>
<td>None/not concerned</td>
<td>12%</td>
</tr>
</tbody>
</table>
Cyber threats cont.

Nearly all (99%) of the businesses concerned about cyber attacks have taken some form of protective action. The most common measures include employee education and training (42%), implementing fraud prevention products (42%) and proactive countermeasures such as deploying technology (41%).
The 2022 J.P. Morgan Business Leaders Outlook: Australia survey is the first of its kind. Conducted between 24 May and 9 June 2022, the survey is a snapshot capturing the concerns and expectations of 204 senior business leaders whose companies have annual revenues between AU$20 million and AU$2 billion.

Who took the survey*

- Owner: 24%
- CEO/Chairman/Chairwoman: 30%
- CFO: 36%
- Manager: 6%
- Director: 2%
- Other: 1%

Company size by number of employees

- Under 100: 6%
- 100-249: 11%
- 250-499: 17%
- 500-999: 23%
- 1,000-4,999: 30%
- 5,000+: 13%

Company size by annual revenue*

- AU$20mm-$100mm: 60%
- AU$101mm-$500mm: 20%
- AU$1b-$2b: 19%
- AU$501mm-$1b: 2%

*Numbers do not equal 100% due to rounding.
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